

**UNITED STATES BANKRUPTCY COURT  
SOUTHERN DISTRICT OF NEW YORK**

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**In re** : **Chapter 11 Case No.**  
: **LEHMAN BROTHERS HOLDINGS INC., et al.,** : **08-13555 (JMP)**  
: **Debtors.** : **(Jointly Administered)**  
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**FIRST INTERIM APPLICATION OF LAZARD FRÈRES & CO. LLC, DEBTORS'  
INVESTMENT BANKER FOR ALLOWANCE OF COMPENSATION AND FOR  
THE REIMBURSEMENT OF ACTUAL AND NECESSARY EXPENSE INCURRED  
FOR THE PERIOD FROM SEPTEMBER 15, 2008 THROUGH JANUARY 31, 2009**

Name of Applicant: **Lazard Frères & Co. LLC**

Authorized to Provide  
Professional Services to: **Debtors and Debtors-in-Possession**

Date of Retention: **December 17, 2008 *nunc pro tunc* September 15,  
2008**

Period for which compensation and/or  
reimbursement is sought: **September 15, 2008 through January 31, 2009**

Amount of Compensation Requested: **\$6,600,000.00**

Amount of Expenses Reimbursement  
Requested: **\$33,467.95**

Total Compensation and Expense  
Reimbursement Requested: **\$6,633,467.95**

Less: Amounts Paid to Date: **(\$5,981,477.58)**

Net Amount of Compensation  
Requested: **\$651,990.37**

This is a(n): \_\_\_\_\_ monthly   X   interim \_\_\_\_\_ final application

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TO THE HONORABLE KEVIN J. CAREY,  
UNITED STATES BANKRUPTCY JUDGE:

Lazard Frères & Co. LLC, ("Lazard"), Investment Banker to Lehman Brothers Holdings Inc. ("LBHI") and its affiliated debtors (collectively the "Debtors"), hereby submits its First Interim Fee Application (the "Interim Application") pursuant to sections 330 and 331 of title 11 of the United States Code (the "Bankruptcy Code") for an allowance of compensation for professional services rendered to the Debtors and for reimbursement of actual and necessary expenses incurred in connection with such services from September 15, 2008 through and including January 31, 2009 (the "Compensation Period") as set forth in their engagement letter (the "Engagement Letter"), attached hereto as **Exhibit A.**

**BACKGROUND**

1. On September 15, 2008 (the "Commencement Date"), the Debtors commenced a case under chapter 11 of the United States Code (the "Bankruptcy Code").

The Debtors continue to operate their businesses and manage their properties as debtors in possession pursuant to sections 105(a) and 331 of chapter 11 of title 11 of the United States the Bankruptcy Code.

2. This Application is submitted pursuant to the terms of the Administrative Order Establishing Procedures for Interim Compensation and Reimbursement of Expenses for Professionals and Committee Members dated November 17, 2008 (the “Administrative Order”). Pursuant to the Administrative Fee Order, Lazard is seeking interim allowance and full payment, without any holdback of fees, of \$6,600,000.00 and \$33,467.95 for reimbursement of expenses relating to services rendered on behalf of the Debtors during the Compensation Period.

3. On December 17, 2008, this Court entered certain Order Pursuant to sections 328(a) and 1103(a) of title 11 of the United States Code, 11 U.S.C §§ 101-1532 (the “Bankruptcy Code”) and rule 2014 the Federal Rules of Bankruptcy Procedure (the “Bankruptcy Rules”) and rule 2014-1 of the Local Bankruptcy Rules of the Southern District of New York (the “Local Rules”) authorizing the retention and employment of Lazard Freres & Co. LLC as Investment Bankers for the Debtors *nunc pro tunc* to September 15, 2008 (the “Retention Order”), attached hereto as **Exhibit B**.

4. On September 20, 2008, this Court approved the sale of the Debtors North American investment banking operations to Barclays. Lazard acted as the primary financial negotiator in the Barclays transaction. Pursuant to section 2(b)(i) of the Engagement Letter between Lazard and LBHI, Lazard was paid a Sale Transaction Fee of

\$5,000,000 upon consummation of the sale to Barclays Capital, Inc., (the “Barclays Sale Fee”).

5. All services for which Lazard requests compensation were performed for or on behalf of the Debtor.

### **COMPENSATION REQUEST**

6. Lazard seeks allowance of compensation for professional services rendered to the Debtors during the Compensation Period in the aggregate amount of \$6,600,000.00 and for reimbursement of expenses incurred in connection with the rendition of such services in the aggregate amount of \$33,467.95, for a total award of \$6,633,467.95 (the “Compensation Amount”). During the Compensation Period, Lazard expended a total of approximately 7,217.2 hours for which compensation is requested.

7. For the convenience of the Court and all parties in interest, attached hereto as **Exhibit C** is a summary setting forth the name of each professional for whose work on these reorganization cases compensation is sought.

8. Prior Monthly Applications for the Compensation Period:

Date Filed	Period Covered	Requested		Amounts Paid		Net Requested
		Fees	Expenses	Fees	Expenses	
1/23/2009	09/15/08 - 11/30/08	\$5,800,000.00	\$11,992.07	\$5,640,000.00	\$11,992.07	\$160,000.00
2/23/2009	12/01/08 - 12/31/08	\$400,000.00	\$9,485.51	\$320,000.00	\$9,485.51	\$80,000.00
3/19/2009	01/01/09 - 01/31/09	\$400,000.00	\$11,990.37	\$0.00	\$0.00	\$411,990.37
TOTAL		\$6,600,000.00	\$33,467.95	\$5,960,000.00	\$21,477.58	\$651,990.37

### **SUMMARY OF SERVICES**

9. During the Compensation Period, the Debtors relied heavily on the experience and expertise of Lazard's professionals in dealing with matters described in Paragraph 10. Since the bankruptcy filing of LBHI on September 15, 2008, Lazard's highly skilled restructuring and mergers and acquisitions professionals devoted significant time and effort to perform properly and expeditiously the required professional services. In particular, Lazard participated in around-the-clock negotiations, which were instrumental in the sale of Lehman's North American banking operations to Barclays on September 20, 2008. Since then, 39 Lazard professionals based in the United States spent over 7,000 hours during the Compensation Period on various Lehman related matters, including but not limited to the investment management division, merchant banking, real estate funds, venture capital, alternative energy, insurance, commercial banks and thrifts, and investments in alternative asset managers. Internationally, Lazard professionals assisted in the sale of investment banking operations, provided strategic advice on investments in alternative asset managers and worked closely with other professionals on transactions in Asia, Europe and Latin America. In total, 44 Lazard professionals worldwide including 16 managing directors provided services relating to the LBHI bankruptcy.

10. A summary of some of the services rendered by Lazard during the Compensation Period are as follows:

- a) *Sale of Lehman's North American Banking Operations:* Lazard represented LBHI in the sale of the North American investment banking operations to Barclays, which was approved on September 20, 2008. Lazard acted as the primary financial negotiator in the transaction, which was completed under tremendous time pressure during an extremely volatile market. Lazard participated in around-the-clock negotiations during which the deal was tenuous. Lazard

worked diligently, creating presentations and attending meetings with the Lehman Board of Directors and senior management, to find a solution that worked for both parties. Failure to reach an agreement on a transaction would have resulted in a liquidation of the investment bank and significantly reduced proceeds to the Estate. Additionally, Lazard provided proffered testimony in connection with the transaction. This transaction is closed as of the filing of this interim fee application.

- b) *Sale of Lehman's Investment Management Division:* Lazard acted as the sell-side advisor to the Estate in the management buyout of the Investment Management Division. 15 Lazard professionals, including 9 managing directors, spent time on this transaction. The court approved the bid procedures for the sale process on October 16, 2008. Lazard subsequently ran a comprehensive sale process between October 16, 2008 and the bid deadline on December 2, 2008. During that time, Lazard contacted 80 potential buyers, helped negotiate confidentiality agreements, provided documents to potential buyers and facilitated due diligence. Lazard also worked with the Debtors to negotiate a management buyout bid. Lazard, along with the counsel to the Debtors, held an auction on December 3, 2008, during which time the management bid was determined to be the winner. The value to the Estate under the management bid was higher than the Stalking Horse bid and the terms were better for the Estate; therefore, the management bid was deemed to be "highest and best." Lazard, along with Alvarez & Marsal and the counsel to the Debtors, negotiated the transaction in an extremely short time frame, bringing together LBHI, the management of Investment Management Division and the creditors to reach a consensual agreement. Lazard facilitated due diligence, helped draft and negotiate purchase agreements, traveled to attend meetings with management on several occasions and maintained ongoing communication with the Debtors, the Debtors' counsel and the advisors to the creditors' committee. Lazard also provided proffered testimony in connection with the transaction. Additionally, Lazard is negotiating the purchase of the European and Asian divisions of Lehman Brothers Asset Management as part of the transaction. This transaction has not yet closed as of the filing of this interim fee application.
- c) *Sale of or Strategic Alternatives for Lehman Brothers Bank:* Lazard has been actively engaged in the sale process of Lehman Brothers Bank ("LBB"), a Delaware thrift comprised of three businesses: mortgage servicing, small business finance and student lending. Senior Lazard professionals, in consultation with A&M and LBB's management, initiated a process to sell the assets and liabilities of LBB in a very broad marketing process in which we contacted potential strategic and financial buyers. As a result of that process, there were several parties with whom Lazard worked to try and

consummate a transaction, however, based on analysis by A&M and Lazard, none of the alternatives were in the best interest of the Estate. Lazard has also worked with LBB and A&M to consider several other alternatives including asset sales, merger of particular division(s), potential divestitures of the businesses individually as well as several other structural alternatives.

In particular, starting in November, Lazard professionals devoted significant time and resources to conduct a thorough and comprehensive sale process for the small business finance unit on a stand alone basis. Lazard contacted a number of potential buyers, sent confidentiality agreements, facilitated due diligence, scheduled and attended management presentations and held numerous discussions with management, counsel, regulators and other interested parties. Lazard worked with management to negotiate deal terms, draft a purchase agreement and obtain finalized documentation.

As of the filing of this interim fee application, LBB has closed the sale of a substantial portion of the assets of the small business finance division. Lazard continues to work intensively with LBB on several alternatives to determine the best course of action for the remaining businesses and assets.

- d) *Sale of Lehman's Merchant Banking & Venture Capital funds:* Lazard has been actively engaged in the sale of Lehman's interest in its Merchant Banking and Venture Capital funds. Since October 2008, Lazard has been running a full sale process for the two funds. The sale of the Venture Capital unit closed in February 2009. Senior Lazard professionals devoted considerable time to both transactions. In connection with the Merchant Banking transaction, Lazard contacted 90 potential buyers and sent out 62 confidentiality agreements. Lazard contacted over 120 potential buyers and sent out 19 confidentiality agreements for the Venture Capital transaction. Lazard worked diligently with counsel to compile information for an electronic data room, helped create management presentations and facilitated due diligence. Additionally, Lazard helped draft and negotiate purchase agreements, traveled to attend meetings with management on several occasions and maintained ongoing communication with Lehman, counsel and the advisors to the creditors' committee.
- e) *Marketing of Lehman Real Estate Private Equity Funds:* Lazard is actively marketing Lehman's interests in their five real estate private equity funds. The marketing effort constituted a three round process run from October 2008 through March 2009. As part of the competitive sale process, Lazard professionals contacted 108 parties, of which 40 executed confidentiality agreements. Lazard managed an electronic data room and helped prepare due diligence materials, including a management presentation. Throughout the process, Lazard facilitated due diligence and fielded questions from buyers on an

almost daily basis. Senior Lazard professionals advised Lehman to sell the Mezzanine and Equity real estate fund businesses separately and Lazard has since worked on dual processes to negotiate the terms of potential deals and present the selected alternatives to Limited Partners for approval. Additionally, Lazard helped draft and negotiate purchase agreements, traveled to attend meetings with management on several occasions and maintained ongoing communication with Lehman, counsel and the advisors to the creditors' committee. As of the filing of this interim fee application, this transaction has not yet closed.

- f) *Sale of Lehman's SkyPower Assets:* Lazard professionals expended significant time and resources on the sale process for SkyPower, a renewable energy company. Lazard (i) identified and contacted potential buyers of the company and selected assets, (ii) coordinated with management to schedule management presentations and on several occasions traveling to meet with management and prospective buyers, and (iii) worked with prospective buyers to satisfy their due diligence requests and analyses. Lazard professionals spent a significant amount of time with Alvarez & Marsal to discuss valuation and sale process strategy. As of the filing of this interim fee application, this transaction has not yet closed.
- g) *Sale of Lehman's CDO Fund:* Lazard led the sale process of Lehman's CDO fund. Between November and January, Lazard contacted 26 parties. Lazard managed the electronic data room, coordinated management presentations and devoted considerable time in discussions with management to understand the business and worked with management, Alvarez & Marsal, counsel and advisors to the creditors' committee to understand and evaluate the bids that were received. As of the filing of this interim fee application, a buyer has been identified, the transfer agreement has been executed and the necessary L.P. consent process is near completion.
- h) *Sale of Lehman Trust:* Lazard was actively involved in the sale process for Lehman's trust business. Since October, Lazard, together with Alvarez & Marsal, has had discussions and meetings with a number of potential buyers, as well as reviewed financial information. In addition, Lazard attended meetings, evaluated proposals, reviewed legal documents and negotiated terms with key constituents. As of the filing of this interim fee application, Lehman is finalizing a transaction with a buyer.
- i) *Investment in Alternative Asset Managers and Other Assets:* Lazard is working closely with Lehman to evaluate the status of an equity position in a U.S. alternative asset manager. Lazard met with the management of the alternative asset manager several times to conduct extensive due diligence and review financial and other information. Lazard performed financial analysis and shared its findings with



Alvarez & Marsal. Lazard was also engaged in evaluating Lehman's position in a reinsurance company. Lazard prepared materials and provided strategic advice on whether Lehman should fund ongoing commitments.

- j) *International Transactions:* Internationally, Lazard professionals devoted significant time and resources providing strategic advice relating to the various Lehman businesses overseas. Lazard ran a full sale process on Lehman's interest in an alternative asset manager based in the United Kingdom and Lehman's banking units in France and Brazil, which have all closed. In addition, senior Lazard professionals provided strategic advice in connection with the European Mezzanine fund and other Lehman-related businesses in Asia, France, Germany, Italy and the United Kingdom.

#### **ACTUAL AND NECESSARY DISBURSEMENTS OF LAZARD**

11. As set forth on **Exhibit D** annexed hereto, Lazard has disbursed \$33,467.95 as expenses incurred in providing professional services during the Compensation Period. Lazard has maintained detailed records of actual and necessary expenses incurred during the Compensation Period. With respect to expenses, it should be noted that Lazard has absorbed certain expenses customarily charged by other professionals in bankruptcy cases. For example, Lazard does not allocate office telephonic charges by client and thus these costs are absorbed by Lazard in its overhead and not charged to the Debtors' estate. Lazard respectfully submits that the expenses for which it seeks allowance during the Compensation Period are necessary and reasonable both in scope and amount.

#### **CONCLUSION**

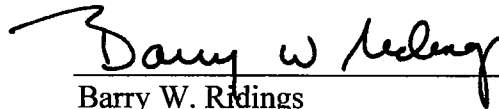
12. It is respectfully submitted that the amount requested by Lazard is fair and reasonable given (a) the complexity of the issues presented, (b) the time and labor required, (c) the skill necessary to perform the financial advisory services, (d) the

preclusion of other employment, and (e) the customary fees charged to clients in bankruptcy and non-bankruptcy situations.

WHEREFORE Lazard respectfully requests (i) an interim allowance of compensation for professional services rendered during the Compensation Period in the amount of \$6,600,000.00 and reimbursement for actual and necessary expenses Lazard incurred during the Compensation Period in the amount of \$33,467.95; (ii) the allowance of such compensation for professional services rendered and reimbursement of actual and necessary expenses incurred be without prejudice to Lazard's right to seek additional compensation for services performed and expenses incurred to during the Compensation Period which were not processed at the time of this Application; and (iii) such other and further relief as is just

Total Amount of Compensation Requested:	<b>\$6,633,467.95</b>
Less: Amounts Paid to Date:	<b><u>(\$5,981,477.58)</u></b>
Net Amount of Compensation Requested:	<b><u>\$651,990.37</u></b>

Dated: New York, New York  
April \_\_, 2008



Barry W. Ridings  
Managing Director  
LAZARD FRÈRES & CO. LLC  
30 Rockefeller Plaza  
New York, New York 10020  
(212) 632-6000  
Investment Banker for the Debtors and  
Debtors in Possession

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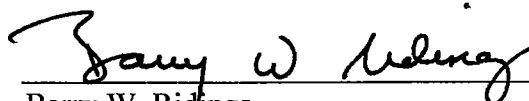
**CERTIFICATION OF LAZARD FRÈRES & CO. LLC**

STATE OF NEW YORK )  
 ) ss:  
COUNTY OF NEW YORK )

I, Barry W. Ridings, declare as follows:

1. I am a Managing Director with Lazard Frères & Co. LLC, an investment bank with principal offices located at 30 Rockefeller Plaza, New York, New York 10020. I am authorized to execute this Certification in connection with Lazard's First Interim Fee Application in the above-referenced bankruptcy cases.

2. To the best of my knowledge and belief, Lazard is in compliance with Fee Review Committee's recommendations for internal and external photocopy expense reimbursement, and the US Trustee's guidelines regarding over-time related expenses for meals and transportation.



Barry W. Ridings  
Managing Director

Dated: \_\_\_\_\_